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Session: China and its Neighbors

IMFRR1

**China and India: The Dragon-Elephant Game**

**Slide 1**

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**IMFRR1** IMF Resident Representative, 12/2/2006

# China and India: Learning from Each Other

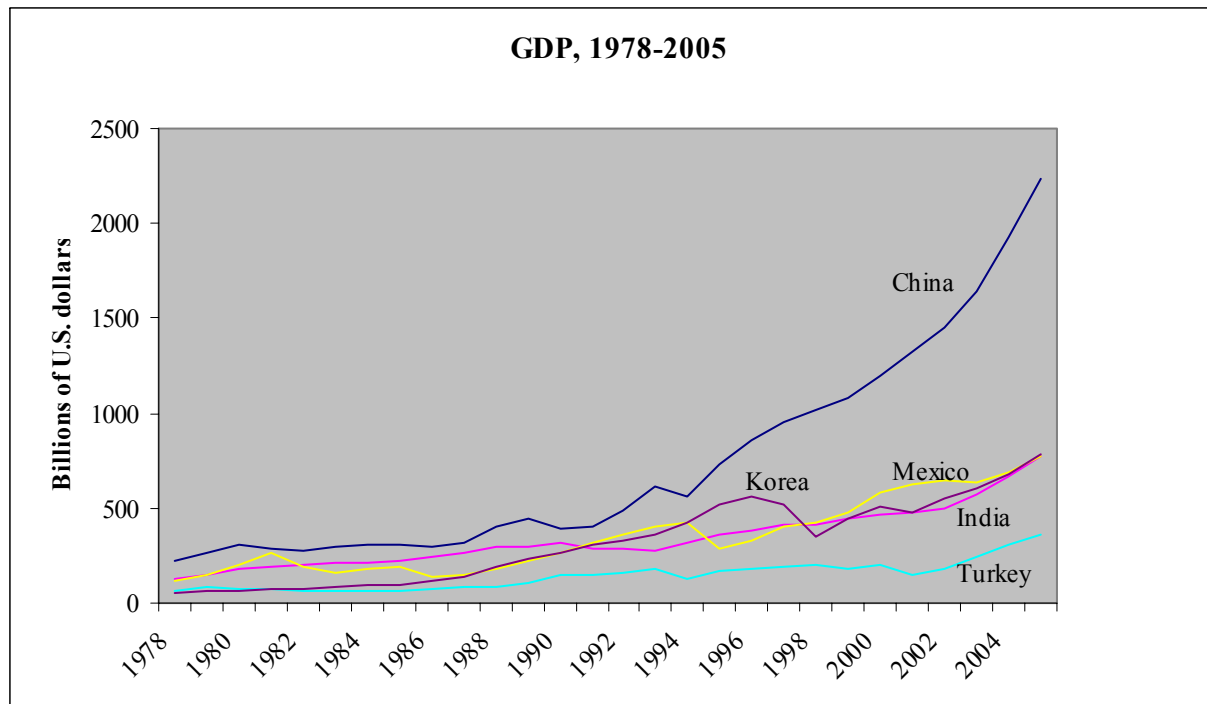
## Presentation by Vivek Arora

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# China and India: Learning from each other

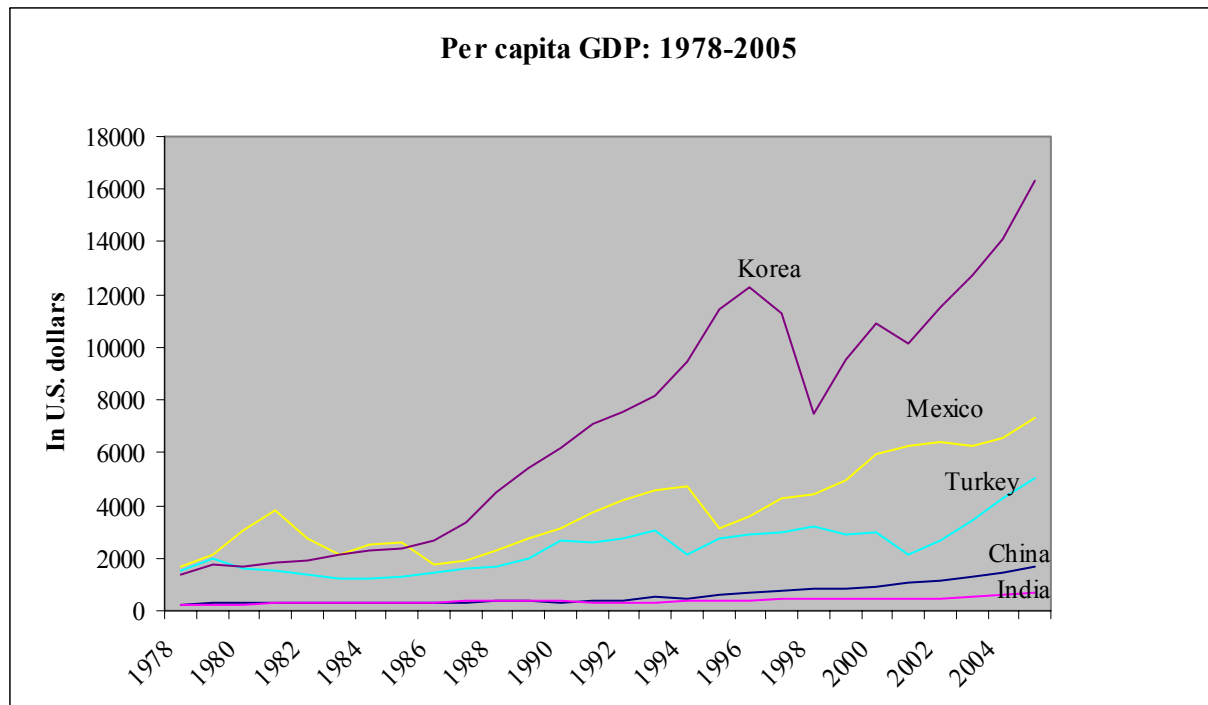
- Development experience
- One key area: financial sector reform
- Recent book: “China and India: Learning from Each other—Reforms and Policies for Sustained Growth”  
(J. Aziz, S. Dunaway, E. Prasad (eds.))

# Development experience: large increase in economic size (GDP)



...but both still developing countries.

- Per-cap. GDP (\$'s)



# Financial sector reform: China and India

- Several common elements:
  - Banks play a relatively major role in China;
  - Less role for capital markets.

# Banks and capital markets

## Selected countries: Financial Sector Indicators, 2005

	China	Korea	India	Mexico	Asia	U.S.	
Bank credit/GDP (2004)	141	80	37	14	104	46	
Stock market capitalization/GDP	25	91	137	24	82	129	
Domestic debt/GDP	28	89	38	39	62	186	

*Sources: IMF GFSR; World Federation of Exchanges; IMF, IFS and WEO databases; World Bank, WDI database; Bank for International Settlements; and IMF staff estimates.*

# Banking sector (Luo Ping, 2006)

- Banking sector dominates financial sector.
- State ownership preponderant.
- Relative strength of Indian banks.
- China's recent progress.
- Supervisory system challenges (f.x. and credit risk; monitoring new NPLs).

# Capital market reform in China

- Equity market: non-tradable shares; regulatory reform.
- Bond market: progress at short end; regulatory challenges remain.

## Some features of Indian reforms since 1991 (Bery and Singh)

- Interest-regime liberalization.
- Private and foreign banks.
- Prudential norms.
- Supervisory/regulatory institutions.
- Capital market development.
- Public debt.
- Money market reforms.

# References

Aziz, J; S. Dunaway; and E. Prasad (eds.), **China and India: Learning from Each Other: Reforms and Policies for Sustained Growth**, IMF 2006.

Bery, S, and K. Singh, “Domestic Financial Liberalization and International Financial Integration: An Indian Perspective,” in Aziz et al. (2006).

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Tseng, W and D. Cowen (eds.) **India’s and China’s Recent Experience with Reform and Growth**, IMF 2005.